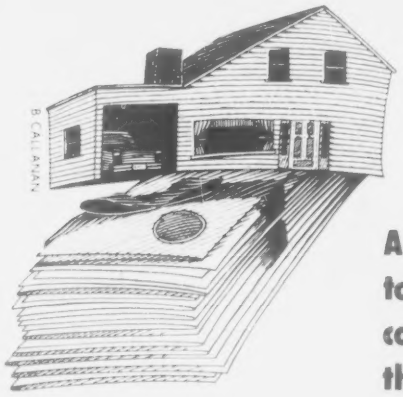


As business gets tougher, insurance companies increase their reliance on quality-based measures of sales productivity.

INSURANCE

Motivating Through Quality

BY REGINA EISMAN

Business sense dictates that companies focus on numbers when measuring sales productivity. But insurance providers realize that it makes just as much sense to use quality-related measures to motivate their agents.

Quantitative measures—number of policies written, commissions earned and total amount of policy premiums, for example—will never be abandoned, but some companies have placed more emphasis on quality over the past several years. Although there are some companies that have used quality measures for a long time, consultants and other experts who follow the insurance industry say, in general, companies are more interested in maintaining quality business than they have been in the past.

These measures are important to insurers for a number of reasons. "It's a tougher world out there—it's very competitive," said Charles Watson, president of Charles Watson Associates, an insurance consulting firm in Wethersfield, Conn. A 30 to 40 percent decrease in the individual agency population over the past five years—due mostly to sales and mergers—could be a contributing factor to the intense competition, he noted.

"They [insurance firms] are losing money, so they are becoming increasingly conscious of the quality of the business they write," agreed David Baetz, editor and publisher of American Agent and Broker, a St. Louis-based trade magazine.

An increase in the complexity of insurance policies also contributes to the quality drive, said Eric Hall, director of industry affairs for the National Association of Professional Insurance Agents (PIA), a trade group based in Alexandria, Va. There have been lawsuits in which courts have interpreted policies differently from the way the insurance companies have, "and companies have ended up paying for claims they never intended to pay," said Hall. "As a result, the insurers have said, 'This evolution requires more of an agent than it has in the past.'"

Still another reason, according to Hall, is the agency termination legislation that various states enacted in 1986, making it more difficult for companies to drop agents. Although insurers opposed the laws because they wanted to cut losses in unprofitable areas, state legislatures felt that dropping agents was too disruptive to the customers, Hall said. "Now, companies have to be more sure that the agencies they use can give them the quality they are looking for."

Insurance companies say profits depend as much upon quality as quantity. Just as quality business means little without sufficient volume, "if you write a certain level of business but it's not quality, it doesn't benefit the agent or the company," said Charles Metz Jr., vice president of advertising and promotion for the Nationwide Mutual Insurance Company, Columbus, Ohio.

Commonly used quality measures include retention rate (also called persistency), or what percentage of customers renew their policies; a policy's profitability, determined by what percentage of the policy's value is made up of claims (the loss ratio), and new-business growth. Some multiple-line agencies also value cross-selling, which is the sale of different lines of insurance to the same customer.

Although insurance company executives will not

MOST COMMONLY USED QUALITY MEASURES

- Retention rate—amount of business renewed each year
- Profitability—determined by loss ratio, or the percentage of policy's value that is made up of claims
- Amount of new business
- Amount of business cross-sold

disclose exactly how much weight they place on quality measures, they say these measures are important in determining incentive awards. In a 1987 study conducted by the Life Insurance Marketing and Research Association, Hartford, Conn., more than a third of 1,100 independent agents (representing more than one company) who cross-sell said the insurance companies they represent encourage cross-selling by offering bonuses and incentives. Sixty-five percent of 2,700 exclusive agents (representing only one company) who cross-sell said the tactic is encouraged by company incentives and bonuses. (See tables below.)

Aetna tracks the amount of business that is cross-sold and has seen steady sales increases each quarter.

The Aetna Life and Casualty Company, Hartford, Conn., has emphasized cross-selling since 1983, according to administrator of corporate affairs Thomas Greaney. Cross-selling can increase an agent's retention rate, he said. "If a customer has more than one type of insurance with a company, he's more likely to stay with that company," Greaney said.

Aetna holds contests once or twice a year, giving awards to the agents who achieve the most cross-sales. Agents rack up points over several months and redeem them for merchandise. "We've seen steady sales increases each quarter," Greaney claimed. The company, which sells mostly through independent agents, also measures growth, profitability and retention to determine the amount of profit-sharing its agents receive.

Cross-selling awards also are offered by the Philadelphia-based Cigna Corporation, although these are not for its agents but for the company managers who set up the cross-selling programs, according to assistant vice president James Beattie. Cigna was formed when INA, which was primarily a property and casualty firm, merged with Connecticut General Life in 1982, making cross-selling a logical move, Beattie said. "It's like one-stop shopping," he said. "Cross-selling is not an entirely new concept, but it seems to be coming back with some strength."

The number of cross-sales is one of several quality measures used as part of a company-wide system that the United Services Automobile Association started in 1987. (See "USAA Property & Casualty: Family of Measures," May 1989.) The San Antonio-based company uses different measures—including timeliness (response time to customers) and number of error-free sales—for different departments, said quality management administrator Jerry Gass.

The measures were adopted in response to employees' suggestions, which were given at company meetings. "Our employees felt that other things were important, in addition to tracking sales," Gass said. "The system is an excellent tool that managers

MOTIVATION FOR CROSS-SELLING

These are the methods that various types of insurance agents said were being used by companies to encourage cross-selling.

INDEPENDENT AGENTS*

	Property/ Casualty[1]	Life[2]	Multiple-line[3]	Cross-selling[4]
Compensation plans	17%	38%	26%	33%
Bonuses/incentives	29	37	34	37
Recognition programs	14	33	19	27
Performance standards	17	27	17	17
Publications	11	22	12	10
Underwriting practices	35	26	30	27
Premium rates	23	29	28	13
Special marketing programs	21	22	21	27

*Agents representing several companies.
[1]Agents who receive 75 percent or more of their commissions from property/casualty insurance.
[2]Agents who receive 75 percent or more of their commissions from life insurance.
[3]Agents who sell both life and property/casualty, but not necessarily to the same customer.
[4]Agents who sell both life and property/casualty, primarily to the same customer.

Source: Life Insurance Marketing and Research Association.

EXCLUSIVE AGENTS*

	Property/ Casualty[1]	Life[2]	Multiple-line[3]	Cross-selling[4]
Compensation plans	47%	47%	47%	45%
Bonuses/incentives	67	44	64	65
Recognition programs	63	60	64	68
Performance standards	46	45	54	52
Publications	35	36	37	36
Underwriting practices	36	29	36	35
Premium rates	34	31	35	37
Special marketing programs	33	39	32	32

*Agents contracted to a single company.
[1]Agents who receive 75 percent or more of their commissions from property/casualty insurance.
[2]Agents who receive 75 percent or more of their commissions from life insurance.
[3]Agents who sell both life and property/casualty, but not necessarily to the same customer.
[4]Agents who sell both life and property/casualty, primarily to the same customer.

Source: Life Insurance Marketing and Research Association.

can use to coach employees and that employees can use to see where their strengths and weaknesses are."

Incentives include merchandise and monthly breakfasts for top performers. Gass said United Services is considering offering trips, as well. Since the company started using the system, sales in the new-member department have risen by 10 percent.

Retention, another quality measure, is important to insurers because, as Greaney pointed out, "there can be more money in retention than in new business." Fireman's Fund Insurance Companies, a Novato, Calif., firm that sells property and casualty insurance, uses retention, profitability and growth to measure its independent agents' output, but began placing greater value on retention about a year ago.

"The focus used to be more on loss ratio, but we realized that some of our best producers weren't being rewarded," said vice president of sales and marketing Michael Vallejos. "We think retention is a better signal of quality."

Because accident-related lawsuits often are not settled for several years, profitability figures take longer to calculate, he noted, while retention rates can be measured immediately. Another reason that renewing business is beneficial to the independent agent is that it is more complicated to move an account from one carrier to another than to renew with the same carrier.

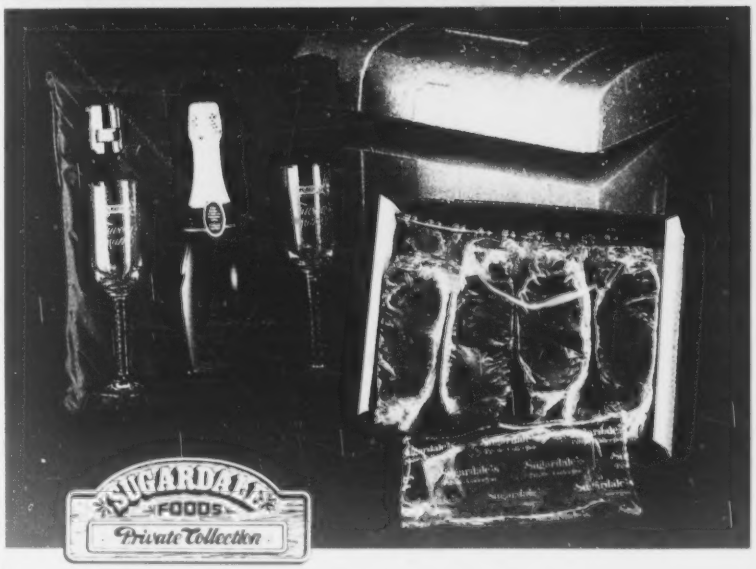
Under the new requirements, Fireman's Fund agents must maintain a retention ratio of at least 50 percent to qualify for a bonus; the better the ratio, the higher the agent's bonus. It probably will take two or three years before the company will be able to gauge the effect of the change, Vallejos said, but "most of our agents seem to be happy with it."

At the Allstate Insurance Company, Northbrook, Ill., the agents — who are company employees — are not eligible for an annual bonus unless at least 80 percent of their customers renew their life-insurance policies, according to assistant vice president of sales Dwight Hammack. The amount of the bonus is based on sales, but "if agents don't maintain the 80 percent rate, they don't get it," Hammack said. "We want our clients to see a need to renew their current insurance policies."

Quality measures are used to determine Allstate's incentive awards, as well. Salespeople receive points for new business, profitability and retention, in addition to sales volume, said assistant vice president of field support Jeffrey Kaufman.

The top 35 percent of agents earn a gold ring, and the top 10 to 12 percent attend the four-day National Champions Conference, held in a different U.S. city each year. About five years ago, the company added an even higher level for the top 1 to 3 percent, who travel to an overseas city for the five-day Chairman's Conference. Both conferences combine business meetings with social events and recognition ceremonies,

THE PERFECT COMBINATION



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where honorees receive plaques and trophies. The company pays for the employee's spouse to attend.

In addition to the annual awards program, Allstate runs short-term campaigns, usually lasting from six to eight weeks and offering incentives ranging from merchandise to weekend trips within the United States. Currently, the company is running an auto insurance campaign, in which the top 30 percent of agents win a certificate good for several nights at one of 14 hotels and resorts around the country. This is the first time a short-term campaign has had a prize that one-third of the employees can win: "We wanted to get more people involved and experiment with moving the masses," Kaufman said.

Nationwide Mutual places quality before quantity in its measurement system. "Our agents must have a quality portfolio *first*, and then they must write a certain level of production," said Metz.

Retention and profitability in life insurance, and profitability in property and casualty insurance, help determine which of the firm's exclusive agents qualify for the company's three awards levels: the Pacesetter Award, for new agents still in training; the Champion Award, for the top 20 to 25 percent of agents, and the President's Conference Award, for the top 2.5 percent. Pacesetter and Champion awards consist of merchandise ranging from $100 to $250 in value. The winners of the top award attend the President's Conference, a motivational, educational and social gathering. This year's conference took place in Hawaii. In addition to these awards, Nationwide pays its agents bonuses for attaining certain levels of retention and keeping loss ratios low, Metz said.

Allstate's employee agents must retain at least 80 percent of their business to qualify for an annual bonus.

Companies judge the success of the quality-oriented programs in two ways: agent feedback and customer survey results. Many insurance providers run focus groups of agents or employees, asking for their ideas and opinions on management policies.

Allstate's focus groups spurred the company to add the Chairman's Conference to its awards schedule, according to Kaufman. "With 16,000 people out there producing, we have to know what they think," he noted. At another firm, every agent comes to the home office for three days of meetings each year. "We talk about what we're doing and get their input," said an official.

Some companies survey customers to find out whether they are satisfied with their agents and policies. In most cases, results are not tied directly to measuring agents' performance. But USAA is an exception: "In addition to internal feedback, we think it's important to use external feedback," Gass said. □

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FACTS SURVEY

Business Gifts

Good will mixes with sales-oriented objectives in gift giving, which is increasing modestly among the executives just surveyed.

Although good will remains a factor, marketers who use business gifts frequently have a motive other than benevolence for their largess. More and more respondents to **Incentive** surveys relate their giving not only to general customer appreciation, but also to sales-oriented objectives.

Christmas is still the top occasion for giving business gifts—although by a diminishing margin. While more than 70 percent give gifts at Christmas, a record 42 percent also use them for sales calls, plant visits, company meetings, trade shows and conventions.

Gift giving is increasing modestly among the executives just surveyed, who anticipate spending 4.7 percent more in 1989 than the previous year—slightly ahead of the 4.3 percent increase for 1988. Estimated business gift spending by all U.S. companies last year was about $1.55 billion.

Most executives are not spending much more for their individual gifts than in the past few years. In 1985, the median unit gift cost was $18; it rose to $20 in 1987 and has stayed there for three years. But there has been a substantial advance in the upper-level prices paid for some gifts. The average has reflected the higher top limits, rising from $39 in 1985 through $75 last year to the present $88.

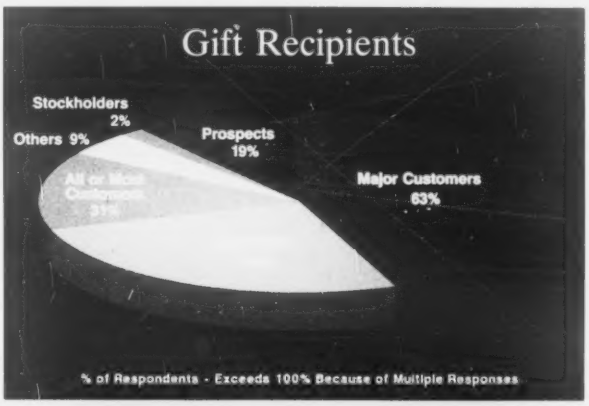
Gifts in the upper brackets cost even more, when one considers the loss of tax deductibility. According to the 1962 gift tax law, an item over $25 is not a deductible expense. Every gift above that level carries an extra tax burden. And a gift costing $25 in 1962, allowing for inflation, cost almost $98 by Christmas 1988.

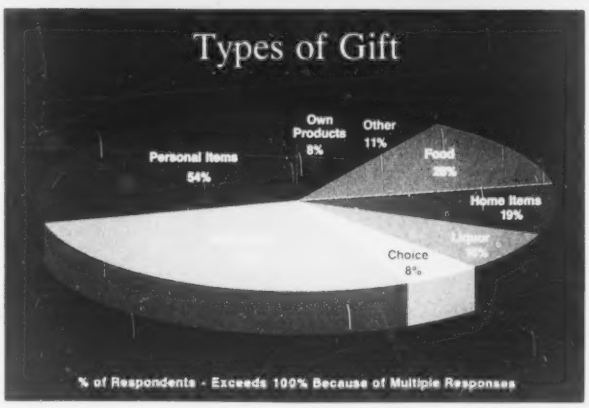
But these considerations do not deter givers significantly. In the latest survey, 26 percent say their most recent gifts cost more than previous ones, and 27 percent plan to spend more per gift next time. Only 4 percent are budgeting for lower individual costs.

More gifts are being used this year, report the 339 companies surveyed. While the average number of recipients dropped to 393 from 480 a year ago, the median jumped to 125 after several years at 100.

As gift lists have grown over the years, users have standardized their selections to avoid the time-consuming task of picking an individual item for each recipient. Some do imprint the beneficiary's name on the gift to personalize it—a practice favored by 27 percent. And some users—about 8 percent in this year's survey—avoid the selection process entirely, presenting a catalogue of items.

Among the holdouts for individual selection is Geary Potter, vice president of Potter & Associates, a Greensboro, N.C., advertising agency. "It's purely a pleasure," he says, "to choose a gift for someone based on [their] likes." He gives out about 40 business gifts a year,





Major customers receive most business gifts, which consist primarily of personal and desk items.

TOP CHOICES IN SURVEY

Percentage of respondents selecting each item

Food gifts	29%	Attaches/portfolios	4%
Pens/pencils	19%	Knives	4%
Clocks/watches	17%	Gift choices/certificates	4%
Apparel/caps	17%	Electric appliances	4%
Calendars/diaries/desk planners	17%	Notepads	4%
Wines/liquor	9%	Desk sets	3%
Electronic items	9%	Jewelry	3%
Coffee mugs	7%	Tools	3%
Glassware/crystal	6%	Flashlights	3%
Books	5%	Golf items	3%
Trips	5%	Rulers	2%
Calculators	4%	Luggage	2%
		Sporting goods	2%

including gourmet food baskets, wine, crystal paperweights and personal or desk items.

Kenton Custom Molding, Kenton, Tenn., tailors gifts for about 125 people each year: "small, unusual gifts to exhibit friendliness and reaffirm our thanks for the continued business relationship," says sales coordinator Judi Martin. An example might be "three cases of fresh strawberries to a customer whose wife likes to make jams. We try to personalize our gifts...and do give gifts at unusual times of the year—very little Christmas giving."

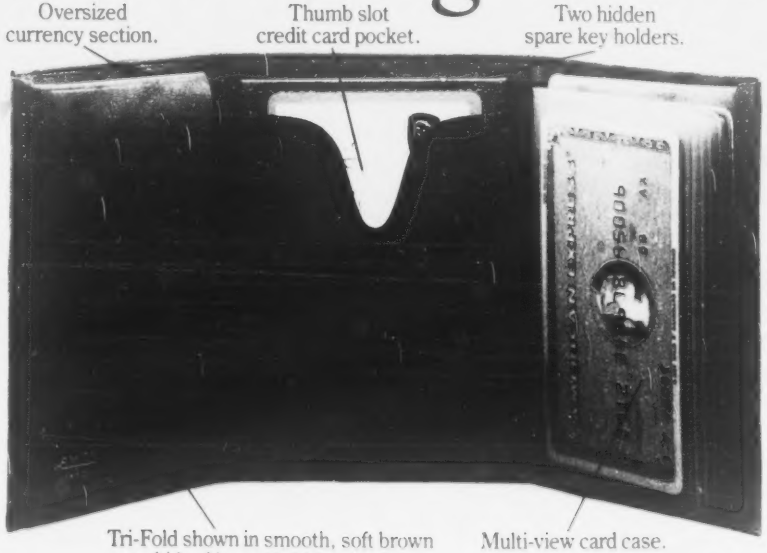
The practice of imprinting the giver's name or logo has increased, and is used by 63 percent of this year's respondents. Imprinting is the usual practice at Bailey Controls, Wickliffe, Ohio. It is "good public relations....Everyone likes to receive something as a token of appreciation or remembrance," says premium coordinator Marilyn Dietz. "A coffee mug, a pen or desk folder will remind a potential customer of his visit and keep the company name visible." She uses a large variety of gifts, including desk items, jackets, caps, T-shirts and golf shirts.

A Midwestern freight company imprints hundreds of desk and personal items "to keep our name in front of the traffic manager—the more functional the item, the better for exposure to the decision-maker."

A Southeastern electronics executive uses 1,500 desk items costing $5 or more "to keep our company name in front of the customer/potential customer. If a potential customer readily has a name and telephone number in front of him, he is more likely to contact you when he has a requirement." Many of the company's gifts are handed out to visitors at conventions.

James R. Barth, general sales manager of Lamination Specialties, a Chicago metal stamper, can argue both sides of the imprinted message

The advantages are threefold.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While the personal touch has faded in recent years, the practice of imprinting a giver's name or logo has increased, used by 63 percent of this year's respondents.

question: "Imprinted with our company name, gifts are a constant reminder to the customer or potential customer," he says, but adds: "Tasteful gifts given at the holiday season, although not imprinted with our company name, serve the same purpose, and also say 'thanks for your business.'"

Even at the holiday time, there can be a clear business objective. A travel agent notes that a gift expressing appreciation for business "enables the sales staff to make a visit during the holiday season to the client's office." A gift bridges a gap for a mail-order seller, who sees it as a way "to say thank you and enhance friendship with people I can't see frequently."

Many gifts are given in specific sales-related contexts. After all, 54 percent of the executives report that their gifts are presented by salespeople. And in the 31 percent of cases where the executive bestows the gift, most are sales-related occasions.

Often the gift is seen as a door-opener for a salesperson. "The reason I give gifts," says Raymond H. Fairbank of the auto parts manufacturer Frank Foundries Corporation, Moline, Ill., "is to show appreciation for their business and to help break the ice with receptionists."

A food manufacturer uses gifts "to build personal rapport between our sales reps and customer/dealers," using desk items, calendars and the firm's own products.

Tascon Inc., a Houston building materials wholesaler, combines the potential selling advantage of a gift with the ultimate in personalized occasions: a birthday. "We give Christmas and birthday gifts," says T. Aquilina, vice president for sales and marketing. "By far the most important [are] birthday [items]. It lets the customer know that we take a personal interest in him, and hopefully it conveys that we also take a personal interest in his business." The recipient feels singled out by the present, which might not happen when competing with "other gifts at Christmas when he is likely to compare."

When doing business with foreign companies, gifts often are required as part of the sales transaction ritual. J. F. Dawson, vice president of the Kendall Company, Lexington, Mass., a medical products maker, says, "In the case of foreign dignitaries, it is both customary as well as expected that our U.S. managers exchange gifts when visiting abroad, especially in Latin America."

In this country, such practices could lead to ethical dilemmas. Often, even executives who give out business gifts tell us that their own

Who does the buying?

Top management	71%
Sales/marketing management	19%
Advertising/promotion management	6%
Product/merchandising management	4%

When are gifts bought?

January	7%
February	8%
March	10%
April	7%
May	5%
June	13%
July	9%
August	15%
September	33%
October	41%
November	26%
December	25%

Sources of gifts

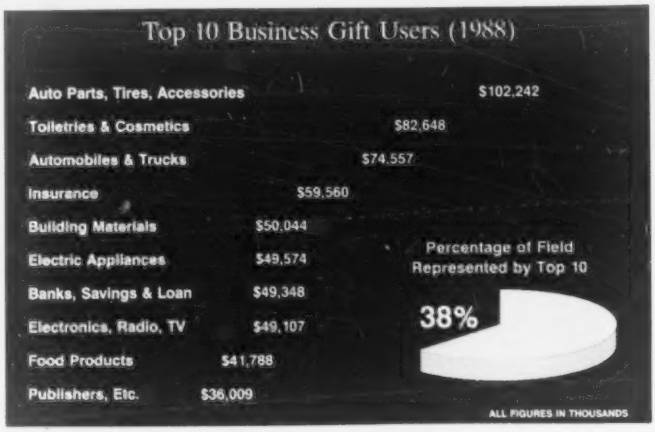
Direct from manufacturer	46%
Wholesaler or distributor	30%
Incentive representative	26%
Advertising specialty counselor	25%
Mail-order firm	18%
Retail store	16%
Incentive firm, jobber, stamp company	10%

How are gifts delivered?

Salesperson	54%
Parcel delivery service	32%
Executive	31%
Mail	22%
Messenger	7%

Where are gifts given?

Recipient's place of business	71%
Recipient's home	28%
Donor's place of business	20%



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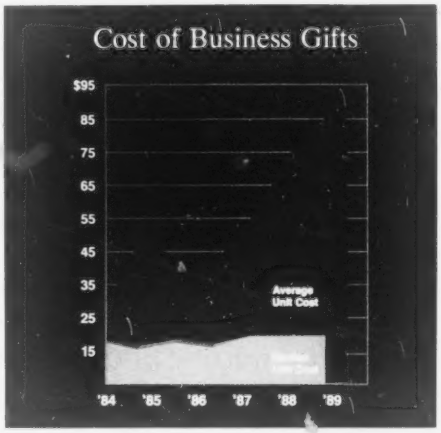
As gift lists have grown over the years, users have standardized their selections to avoid the time-consuming task of picking an individual item for each recipient.



companies oppose the acceptance of such items.

This partly explains the small number of business gifts that the survey respondents say they receive: an average of only nine per year and a median of just five.

About two-thirds of the executives say they find anti-gift policies or restrictions among, on average, 27 percent of the firms they do business with. And 38 percent believe this kind of limitation has increased during the past two years.

A Midwestern building materials manufacturer encounters a no-gift policy in about 25 percent of cases, but does not consider this a problem. His gifts are given "just as a friendly thank-you...Our cheese and sausage package is filled with quality products that we pack in an attractive box. The value is not great, and to my knowledge, we have offended no one nor have we had any returned because of policy."

The survey questionnaire asked, "Do you believe your gifts to business friends have ever improperly influenced a customer's buying decisions?" Only about 12 percent of the respondents answered yes—although it should be noted that, until a year ago, affirmative answers to this question never ran higher than about 7 percent.

Many respondents are highly sensitive to propriety. "When we present a business gift," says Gary Zorn, marketing vice president for Admiral Envelope & Printing, Baltimore, "it is given as a goodwill gesture. We do not try to influence a business contact with gifts. The items are always a reusable commodity (ruler, coffee cup, etc.) and are printed with our logo and business information, so that they act as a constant reminder of our firm."

A companion question asked, "Do you believe gifts you received have ever been intended to influence you improperly?"

About 16 percent of the respondents were willing to question the motives of the givers. One, a Western manufacturer's representative, admitted, "I may have made a buying decision—when other things were nearly equal."

The great majority of givers, however, testify to honorable motives on both sides of the transaction. Says R. E. Bauer, vice president of the consultant Ludlow Engineering Company, Norwalk, Conn.: "Our customers become good friends. We give presents to all of our friends!" □

AUGUST 198

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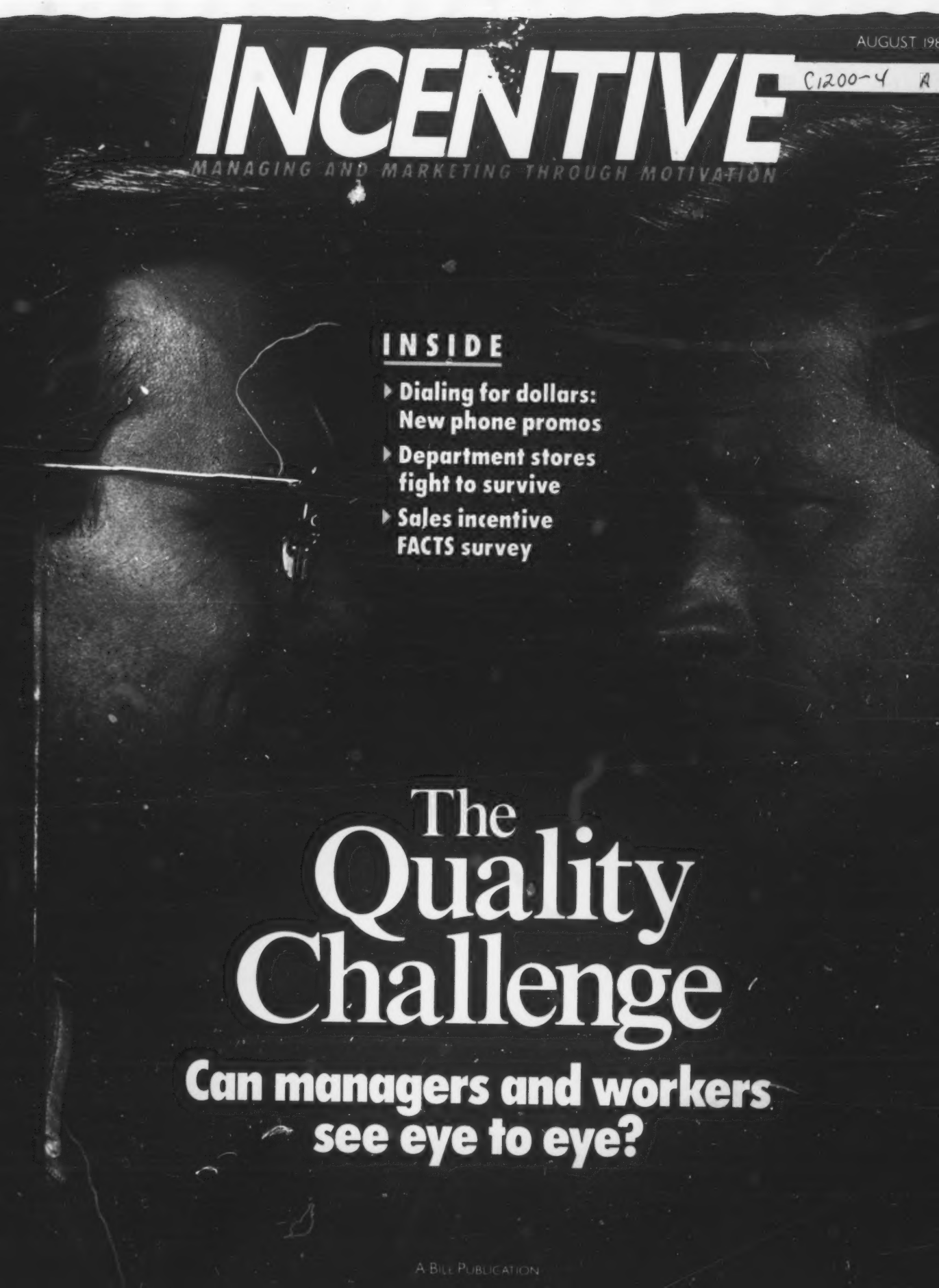
INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION



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The Quality Challenge

Can managers and workers see eye to eye?

A BILL PUBLICATION

AUGUST 1989

INCENTIVE

85TH YEAR, VOL. 163, NO. 8

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- **Marketing Seminars Offered**
National Premium Sales Executives sponsors three all-day courses under the banner of "University of Incentives."
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Incentive/Managing and Marketing Through Motivation® (ISSN 0019-3364; USPS 799-880) is published monthly by Bill Communications Inc., 633 Third Ave., New York, N.Y. 10017. Subscriptions: US/Canada—$48, Foreign—$75. Single Copies—$5. December FACTS issue—$15. Copyright 1989 by Bill Communications Inc., all rights reserved. Postmaster: Send change of address to Incentive/Managing and Marketing Through Motivation, Circulation Dept., 110 N. Miller Rd., Akron, Ohio 44313, (216) 867-4401. Second Class postage paid at New York, N.Y., and at additional mailing offices.

INCENTIVE (formerly Incentive Marketing/Incorporating Incentive Travel) covers the methods used by organizations to motivate customers at all levels to buy and employees to work more effectively.

Cover photograph: Fred Slavin

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Merchandise and travel expenditures are up 6 percent and yielding better results than cash awards, users say.

FACTS SURVEY

Sales Incentives

The incentive program objective that probably embraces the greatest flexibility has grown in favor by one-third, according to this year's **Incentive** survey.

Some of the most effective—and profitable—sales incentive efforts aim at adjusting a product mix by either balancing sales of a line or shifting emphasis to more profitable items. "Move full line or slow items" is the questionnaire shorthand for it, and 32 percent of surveyed executives listed it, up from 24 percent a year ago.

Meanwhile, the catchall objective of increasing overall sales—always the leader—gained two points to reach 63 percent. The next three choices—selling new accounts, introducing new products, improving morale and goodwill—dropped a few percentage points in the ratings.

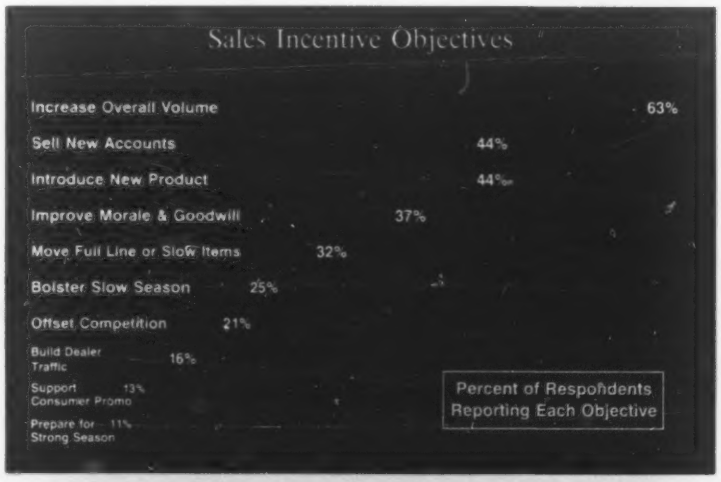
Whatever their goals, marketers in this year's survey project an increase of 6 percent in sales incentive expenditures over their 1988 spending levels. The increase is skewed somewhat in favor of programs that award merchandise—with budgets up 7.8 percent. Promoters plan to spend 4.9 percent more for travel programs.

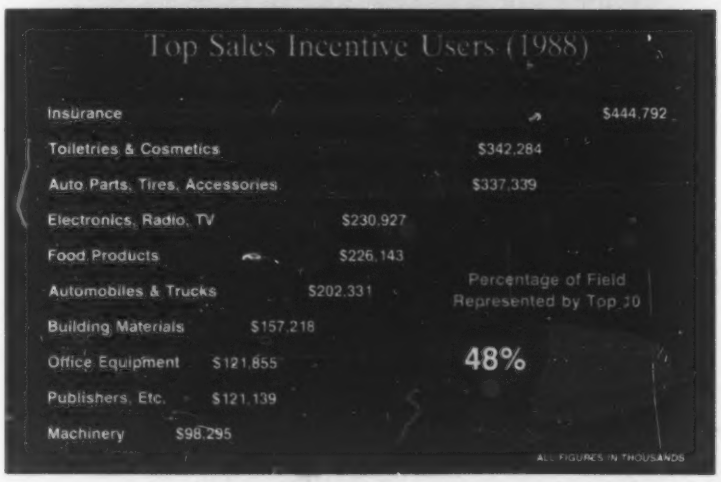
Last year's final estimates showed a similar bias. Merchandise usage was set at about $3.5 billion, an increase of 7.7 percent; travel rose by 3.8 percent to reach $1.3 billion. Growth of 6 percent in 1989 would put the total of all sales incentive spending above $5 billion for the first time. This includes merchandise and travel expenditures only—and excludes cash incentives commonly used by some companies.

Some studies have suggested that approximately one-third of sales executives use cash incentives. **Incentive** readers, who are users of noncash awards, do use some cash incentives too. These executives were asked: "In otherwise identical campaigns (and assuming the sales force is adequately compensated), which type of award do you find yields the best results?" Forty percent of the respondents chose travel, 39 percent selected merchandise, and 21 percent selected cash. All who voted for cash showed usage of merchandise and/or travel as well.

The 200 executives in the present survey experienced some slippage in results, compared with last year's picture, but total effectiveness remains positive. On the average, they achieved sales gains of 18.7 percent in recent campaigns, as against the 19.7 average a year ago. The median remains at 15 percent.

The rate of sales-force qualification has declined a bit—to 37 percent from 42 percent in 1988. Merchandise-


Sales Incentive Objectives
Increase Overall Volume 63%
Sell New Accounts 44%
Introduce New Product 44%
Improve Morale & Goodwill 37%
Move Full Line or Slow Items 32%
Bolster Slow Season 25%
Offset Competition 21%
Build Dealer Traffic 16%
Support Consumer Promo 13%
Prepare for Strong Season 11%
Percent of Respondents Reporting Each Objective



Some of the most effective sales incentive efforts aim at adjusting a product mix by balancing sales of a line or by shifting emphasis to more profitable items.

based programs are bringing 46 percent average qualification, down from 50 percent, and 27 percent are now earning travel awards, compared with 33 percent last year.

The good-news side of the results picture is that the cost in relation to incremental sales has declined—now averaging 13 percent, a two-point drop from the 1988 survey. The median, however, remains at 10 percent.

Many of these promotions are directed toward selling a selected group of the company's products—in 48 percent of cases. But another 40 percent broaden the campaign to embrace the full line of products. Only a small minority—12 percent—focus tightly on single products in their incentive programs.

The salespeople earning awards are of several types. Company-employed salespeople are targeted by 67 percent of these marketers—down from 78 percent last year. About 32 percent offer incentives to manufacturers' representatives and agents; 26 percent to wholesaler or jobber salespeople; 25 percent to retailer sales personnel, and 2 percent to direct sellers.

A factor in the lowered average sales growth is probably the reduced percentage of qualifiers. But this is partly offset by the fact that salespeople had to produce a little more volume to qualify. In the 1988 survey, the minimum award level was 87 percent of quota, and the maximum qualification came at 105 percent. This year, the surveyed executives say the average qualification points are 93 percent and 117 percent of quota.

Raising qualification rates may reflect increases in the unit cost of awards. The trend in such costs is mixed in this survey, with merchandise slightly lower than last year and travel somewhat higher. The average merchandise award is actually up considerably to $369 from $260 a year ago, but a few very large entries can distort the average. The more significant median has dropped from last year's $118 back to $100, where it had been the previous two years. The travel numbers are consistently up: The average trip cost per winner is now $2,458, up from $2,382, and the median is $2,000, up from $1,775.

Most firms conduct one or two incentive campaigns a year. The median is two among those who have merchandise-only programs or offer combinations of merchandise and travel. The travel-only users indicate a median of one campaign each year.

Travel promotions are usually much longer than the typical merchandise incentive offering. The average in this survey is 29 weeks, while a merchandise program runs an average of 15 weeks. Those with longer campaigns who use short-term sprints to keep up enthusiasm report an average of five weeks' duration for them.

But the promotion really starts much sooner, with the planning process taking nearly the same time as the actual campaign. Executives in this survey say they spend an average of 15 weeks—two weeks longer than reported last year—to get ready for a merchandise program. Planning time for travel incentives has also increased—to 27 weeks compared with 25 last year.

Planning time is goal-setting time, award-selection time, purchasing time, rules-writing time and the time to produce the considerable volumes of paper and ink that accompany a major campaign. The promotional materials supporting the effort—mailings and other printed matter, ad specialties or gifts—and any meetings or training associated with the introduction account for an average of 18 percent of the total program budget among this year's survey respondents.

Adding those promotional expenditures to the cost of the merchandise and travel awards brings the total es-

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timated cost of sales incentives in the United States to more than $6 billion a year. No effort is made to estimate the dollars given in cash programs, because they often blur into the area of bonus compensation.

Cash is the stated preference of many salespeople. "Extra money is the incentive most asked for by the sales force," said Sidney Bernstein, vice president of Jak Pak Inc., a Milwaukee toy manufacturer. "But merchandise that appears to have a higher value than the challenge to acquire it has great appeal....Offerings shown to the spouse often spur the employee to treat the spouse."

At the Omaha-based Bekins Van & Storage Company, sales and marketing manager John Bekins says, "Our salespeople are very cash-conscious. They would rather have cash and decide on their own what they would like to do with it." However, the company uses both merchandise and travel in several campaigns a year.

Says Cristina Banac, sales marketing manager of the Modern Guides Company, a San Juan publisher: "We found that most employees/salespersons will have greater flexibility with cash awards, as it becomes more difficult nowadays to find products to suit the needs of the majority and something they don't already have."

A computer manufacturer who has a substantial incentive program using travel, cash and merchandise, says: "I dislike merchandise as a motivational award. I think that too much of the budget is wasted on the middlemen who provide modest prizes at exorbitant cost. I think the best value for a budget dollar is the dollar itself."

John Kowieski, director of marketing at Professional Tape, Burr Ridge, Ill., has good results in several yearly promotions offering merchandise and travel awards to the company's sales force. But, he says, "We are constantly badgered by our sales reps who say they want dollar pay-outs instead of merchandise or travel. Many just don't care about merchandise any more—they want cash!" Nevertheless, he reports a 60 percent qualification rate in his merchandise campaigns.

Many executives who believe strongly in noncash awards cite the fact that most salespeople, if they want more money alone, can earn it through increased commissions or bonuses—and will still earn more money while qualifying for the merchandise or travel incentive. A Southern insurance executive using relatively low-cost merchandise items documents this: "Our 1988 spring campaign was the most successful in company history. The main reason was a red satin baseball jacket with the company logo. People like to identify with groups, and the jacket was a means to that end. The result was over 4,000 jackets shipped to a 4,500-person sales force. Cash would not achieve these results because the sales rep would naturally increase sales on his own without benefit of the campaign if he wants more money."

▶ Types of award

Single premium or group of related items	48%
Individual travel award	37%
Merchandise selection from incentive house	35%
Group travel award	30%
Own catalogue	20%

▶ Merchandise suppliers

Wholesaler or premium jobber	49%
Direct from manufacturer	40%
Full-service incentive house	29%
Manufacturers' representative	25%

▶ Travel suppliers

Make own arrangements	51%
Full-service incentive house	28%
Travel carrier or hotel	21%
Travel/tour wholesaler	20%

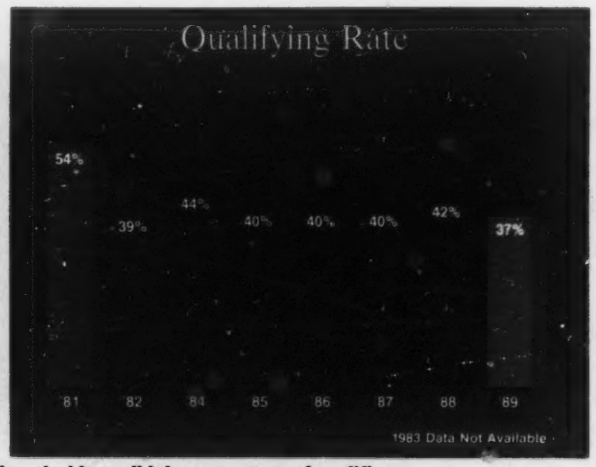
▶ Final buying decision

President, CEO, executive vice president, general manager	64%
Director of sales or marketing	30%
Director of advertising or sales promotion	5%
Product manager or merchandising manager	2%

An Eastern manufacturer offers his company sales force an option in several incentive programs each year. "Some winners convert to cash," he said, "but most choose the award from a fixed-value brochure." About 60 percent qualify.

Several users said they prefer merchandise or travel awards because cash goes into the salesperson's pocket and gets lost. Merchandise or travel "has longer memory than cash," said a Southwestern machinery manufacturer.

Dean Mellgren of Rimco Indus-



Sales gains as a result of incentive programs slipped a bit, as did the percentage of qualifiers.

tries, Waite Park, Minn., says, "Our geographical area tends to represent persons who are material-oriented. ...By offering merchandise, they are able to acquire *toys* they would not otherwise feel comfortable purchasing."

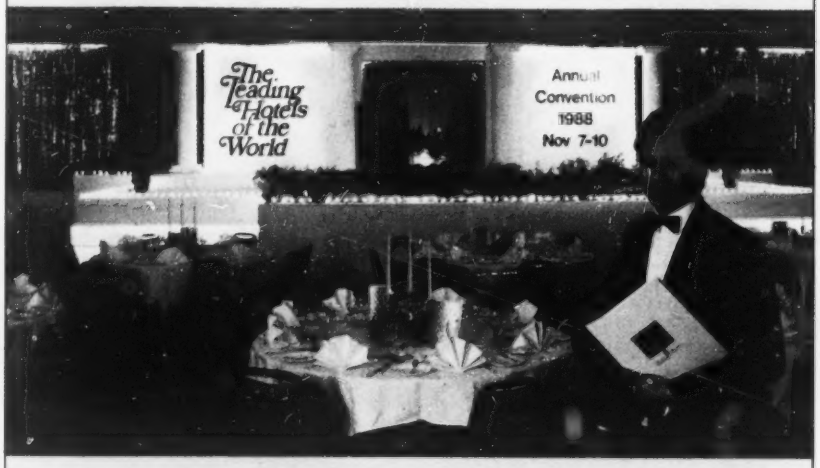
A distributor of beauty supplies also votes for merchandise. "Cash has been tried," the president says, "and loses a sense of earning something....Fewer men try hard—perhaps they earn too much money—and dealers try to steal cash awards from their men, by not telling them or not keeping records."

A Midwestern insurance executive selling through agents also sees problems in getting some awards through the channels: "All travel and cash go to the principal of the agency. It does not motivate. Merchandise goes to the individuals who sell the product."

A choice between merchandise and travel is the decision facing a maker of agricultural chemicals, who has a strong program using both and achieving nearly 100 percent participation. "Overall, merchandise was superior to the individual travel award we offered in 1988," he says. "This year, we offer an option to convert any part or all of the awards to either merchandise or travel once we achieve the 107-percent-of-plan level. We should know which one of the awards provides the most redemption incentive."

Arithmetic is a prime consideration for Richard A. Leon, vice president of marketing for Jet Cargo International in Miami. He finds that "if you use cash, the company spends $100 and the employee gets $100. If you use travel, the company spends $100 and he gets money and enjoyment—but he also stops producing sales while on the trip. If you use merchandise, the company spends $100, and he gets $200 worth and continues producing sales. Incentives can be used more often without decreasing productivity and maximizing value received for the money spent."

Economy of operation is a factor for an Eastern food broker, who achieves 70 percent qualification among the company sales force and jobber salespeople: "Well-thought-out programs using brandname merchandise elicit



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On average, survey respondents achieved sales gains of 18.7 percent in recent campaigns, as against 19.7 percent a year ago. The median remains at 15 percent.

great suspense and enthusiasm but require little promotion dollars." The firm reports spending 5 percent of its total incentive budget for promotion, compared with the survey average of 18 percent.

Travel users can be strongly committed to their awards, especially when group trips mix dealers with salespeople, gaining an extra measure of rapport not achieved with other incentives. "Group travel forms a bond among customers and our company's staff," says Joseph T. Kearse, vice president of Kohl Building Products, Sinking Spring, Pa. "Each new promotion strengthens my belief that customers from one trading area meet and bond with customers from other areas. It is not unusual for these bonded groups to have contact during promotions, comparing current status and encouraging each other to increase purchases so we can get together again."

Says a Midwestern sales agency executive: "Travel is more visible to a salesman's peers. It satisfies personal ego to be able to say that he won a trip by being the best in his company at what he does. Trips are perceived to be expensive!"

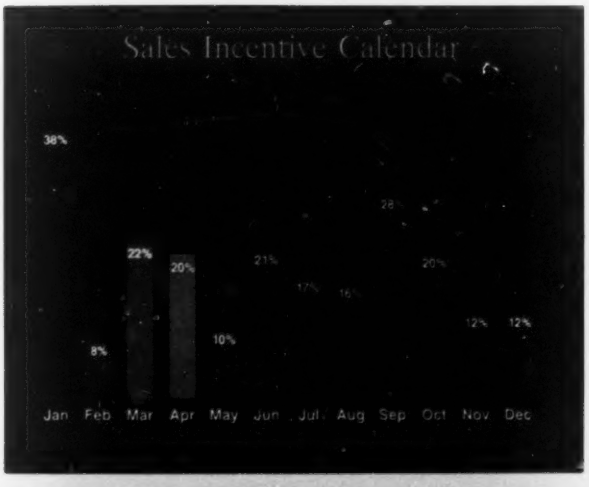
Jayco Inc., a Middlebury, Ind., recreation-vehicle maker, conducts two travel programs a year for its sales force, and 100 percent usually qualify for the group trips, which also include dealers. Says company president Allen Yoder Jr.: "Many of our dealers and salespeople have all the merchandise they can use. However, they have not been to all four corners of the world—yet!"

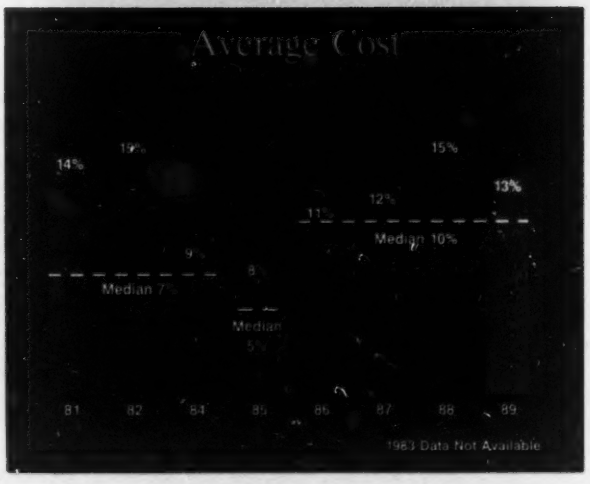
The allure of travel is important to John Franz, president of Brasseler USA Inc., a Savannah, Ga., retailer. He says: "Travel to exotic and/or foreign destinations is the single most sought-after prize by my sales force of 60....It gives them an *escape* from their normally hectic schedule and seems to make them feel that the effort they spent to get there was all worthwhile."

Apart from the considerations of appeal and cost, travel programs tend to be most appropriate for broad objectives such as a total increase in sales over a period of many months. Because the average campaign is twice the length of a merchandise promotion, targeting narrow objectives often may be impractical. And the cost of the travel program frequently demands the long time span to permit salespeople to accumulate the credits needed.

Whatever the specific objectives or the length of the program, each user evaluates the effort in his own way. But the criterion used by 67 percent of these companies is the simple counting of total product units or dollars sold.

Some measure different factors, and most apply more than one standard. Forty-five percent choose the percentage reaching goal or quota, which puts the bulk volume in somewhat different terms. That volume is translated into more basic, bottom-line types of criteria by others: 25 percent look at increased market share, and 22 percent tally up the profits on the incremental sales. A minority of 13 percent, whose sales structures suggest it, evaluate on the basis of branch or district performance rather than individual achievement. □





Above: The percentage of respondents who launch campaigns in January fell to 38 percent from 45 percent last year, while March, June, November and December are up. At right: While the average cost as a percentage of incremental sales has dropped, the median remains the same.